

(Draft – Awaiting Formal Approval)
MINUTES OF THE
RETIREMENT AND INDEPENDENT ENTITIES INTERIM COMMITTEE
Wednesday, May 8, 2013 – 9:00 a.m. – Room 30 House Building

Members Present:

Sen. Todd D. Weiler, Senate Chair
Rep. Kraig Powell, House Chair
Sen. Curtis S. Bramble
Sen. Gene Davis
Sen. Margaret Dayton
Sen. Karen Mayne
Sen. Daniel W. Thatcher
Rep. Jack R. Draxler
Rep. Gage H. Froerer
Rep. Wayne A. Harper
Rep. Lynn N. Hemingway
Rep. Bradley G. Last
Rep. Carol Spackman Moss

Members Absent:

Rep. Merrill F. Nelson

Rep. Susan Duckworth

Rep. Steve Eliason

Staff Present:

Mr. Benjamin N. Christensen, Policy Analyst
Ms. Shannon C. Halverson, Associate General Counsel
Mr. Peter Asplund, Associate General Counsel
Mr. Brian D. Fay, Fiscal Analyst
Ms. Angela J. Oh, Economist/Statistician
Ms. Linda Error, Legislative Secretary

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Committee Business

Chair Weiler called the meeting to order at 9:10 a.m.

MOTION: Sen. Davis moved to approve the minutes of the November 14, 2013, meeting. The motion passed unanimously with Sen. Mayne and Sen. Thatcher absent for the vote.

2. Retirement Systems Overview and 2013 Legislative Update

Mr. Christensen distributed "Utah Retirement Systems Overview" and briefed the committee on five key retirement system indicators: funded ratio, contribution rate levels, revenue, fiscal discipline, and clear reporting. Mr. Christensen presented an overview of the Utah Retirement Systems (URS), which provides retirement systems for all Utah public employees, excluding federal employees, and discussed the following: 1) key provisions to the 2010 retirement reforms, 2) requirements for benefits to be taken, 3) how URS is funded, and 4) the overall funding status of URS. At the end of 2012, the retirement systems had a funded ratio of 76.7%.

Ms. Shannon Halverson discussed with the committee the 15 bills passed during the 2013 General Legislative session that affected the retirement systems and independent entities. Ms. Halverson briefly summarized each bill and explained the projected impact.

3. Utah Retirement Systems Mission, Organization, and Trustee Role

Mr. Daniel D. Andersen, Legal Counsel, Utah Retirement Systems, distributed "Utah retirement Systems Fiduciary Overview" and explained how URS is an independent state agency established to administer retirement systems for state employees. Mr. Andersen noted that in order to receive tax advantage treatment, a pension plan must be a trust, and the funds must be for the exclusive benefit of the beneficiaries and cannot be diverted to any other purpose. Trust fund assets are not public monies and the URS, unlike other state agencies, does not conduct any public business.

4. Tier II Utah Retirement Systems Reform – Update

Mr. Robert V. Newman, Executive Director, Utah Retirement Systems, reported to the committee that in 2010, the Legislature created a new retirement plan referred to as Tier II. He noted that after the 2008 economic downturn, there arose a need to address the long-term solvency of the URS. He said it became clear that adjustments were necessary; therefore, in 2010, the Legislature created a new retirement plan referred to as Tier II. Public employees hired after July 1, 2011, are covered under a new Tier II retirement package. Mr. Newman continued to say that as of April 1, 2013, there were 12,640 active Tier II employees. Employees hired before July 1, 2011, remain on the Tier I package. Mr. Newman distributed "URS Financial and Statistical Highlights" and compared the difference in benefits from Tier I to Tier II. He estimated the move to Tier II will save the state \$180 million by 2018. He said 2012 retirement contributions by employers were \$10.4 million lower due to implementation of Tier II. Mr. Newman noted that the Utah Retirement System has become a model for other states' pension reform.

5. Utah Retirement Systems Actuarial Science and Assumed Rate of Return

Mr. Daniel J. White, Senior Consultant, Gabriel Roeder Smith & Company, briefed the committee on the role of an actuary to the URS and distributed "Utah Retirement System." Mr. White presented an overview of the actuarial mathematics and assumptions explaining how the numbers and conclusions are achieved. Mr. White also discussed the financial condition of URS. He stated that the URS assumed rate of return on investments is 7.5% annually, and in 2012, the actual return was 13.1%. The actuary compared the URS to other retirement systems and further explained the funded ratio and unfunded liability of the URS. Mr. White reported that only 12 of 126 public retirement plans have a lower assumed rate of return than Utah. In answering questions from the committee, Mr. White noted the losses that occurred in 2008 should be recovered within a 25-year window.

In closing comments, Mr. White noted that the benefits provided by URS are financially secure with 80% being currently funded and with a plan underway to become completely funded. Employers will continue to be subject to risk with regard to benefits in the Tier I Retirement Systems. However, employers' costs are fixed as to employee benefits in the new Tier II Retirement System.

Chair Weiler dismissed the committee for a lunch break at 12:05 p.m.

Chair Weiler reconvened the meeting at 1:05 p.m.

6. Public Access to Utah Retirement System Records and Meetings – Update

Mr. Newman reported to the committee that a recent audit by the Office of the Utah State Auditor recommended that URS increase public access to records and meetings. He stated that up until the time of the audit, URS had never received a request of reports in their entirety. He also said that in order to increase transparency and ease in access to information, a new website has been established to provide high-level information to those interested, including the Comprehensive Annual Financial Report. The existing website at www.urs.org will provide a broader spectrum of information. Mr. Newman noted that the combination of these two sites will increase access and information available to the public. Mr. Newman explained that within URS, there is information that must be protected; however, because of exemption from GRAMA, the agency would be willing to work with the Legislature to explore areas that could be disclosed and propose legislation to add further transparency. Mr. Newman announced that he would be retiring as executive director of URS on September 1, 2013.

7. Utah Retirement Systems Investment Performances and Processes

Mr. Bruce H. Cundick, Chief Investment Officer, Utah Retirement Systems, distributed "Utah Retirement Systems Investment Processes and Performance" and explained the strategies used for investment of URS funds. He also explained the governance structure of URS and reported on the investment philosophy and core beliefs of those managing URS. He stated that investment revenues are the primary method of funding retirement systems and explained the URS investment process for hiring and terminating managers. Mr. Cundick noted that URS has 16 investment professionals who oversee the trust fund portfolio. Mr. Cundick commented that over the last 10 years, the rates of return in most areas of investments are up higher than the projected benchmark. He stated that during the downturn of 2008-2009, URS lost 22.2% versus a peer median loss of 26.7%.

Mr. Cundick further reported that URS made the following changes after the downturn: 1) URS produced a liquidity balance sheet and budget to better manage the liquidity needs of the plan, 2) it reduced leverage and working to virtually eliminate the non-core part of the real estate portfolio, 3) it changed fixed-income ranges to produce greater flexibility in rebalancing, and 4) URS created a new allocation called real assets.

8. Postretirement Employment restrictions

Mr. Christensen explained that in 2006 and 2009, two audits from the Office of the Legislative Auditor General reported that the retirement system policy was incentivizing employees to retire and come back to work. Mr. Christensen stated that retirement systems are generally designed to become an income source for when employees are done working. He continued to say that in 2010, the retirement system reforms included tightening down the ability for employees to return to work after retiring. He distributed "Postretirement Employment Restrictions" and noted that this issue is now a study item because there have been questions and issues regarding the new policy.

Mr. Andersen reported that people retiring early has been a financial drain on URS. He stated that there have been questions indicating that maybe employees should be allowed to return to work sooner than the new law allows. He also said there are significant concerns when a retirement system allows for early retirement and then allows those who have retired to return to work. Mr. Andersen reported there must be rules in place to protect the integrity of the account while, at the same time, addressing needs of employers and returning employees. Mr. Andersen noted that the more the ability to retire and then return to work is loosened, the more likely an increase in cost to the retirement system will be incurred.

Motion: Rep. Moss moved to direct Mr. Andersen, working with legislative staff, to compile a list of postretirement options, including costs estimates of each option. The motion passed with Rep. Draxler, Rep. Last, and Rep. Nelson voting in opposition. Sen. Bramble and Sen. Mayne were absent for the vote.

9. Public Employees Health Program (PEHP) Updates

Mr. R. Chet Loftis, Group Insurance Director, Public Employees Health Program (PEHP), presented an overview of the health insurance program and distributed "PEHP Update." PEHP is a division of URS and is governed by the URS board. Mr. Loftis reported that there are a variety of insurance products offered to state employees, including life, accident, and long-term disability insurance, two dental plans, and a Medicare supplement. Three different medical plans and three pharmacy plans are also offered. Mr. Loftis explained the health insurance coverage to legislators.

The impact of federal health reform to the state risk pool was discussed. Mr. Loftis also reported on an online service that has been put into place for customers. The online service is intended to inform customers as to prices of services, providers, and procedures. The service will also help consumers determine the quality of care provided. Mr. Loftis explained that in order to be a provider for PEHP, a provider must submit an application that includes an agreement to accept rules and conditions of PEHP.

10. Other Items

Chair Weiler recommended the next Retirement and Independent Entities Interim Committee meeting be held September 11, 2013, or September 25, 2013.

Motion: Sen. Davis moved to adjourn the meeting. The motion passed unanimously with Sen. Bramble, Rep. Froerer, and Rep. Nelson absent for the vote.

Chair Weiler adjourned the meeting at 3:35 p.m.